

Information Item

Governmental Relations Committee

Review of the Legislative Analyst's Recommendations on the Governor's 2002-03 Budget

Each January the Office of the Governor submits a proposed State Budget for the next fiscal year. The Legislative Analyst's Office follows with recommendations about that proposal. Both documents, along with the May Revise and other information, serve as the primary sources for discussion in the Legislature as it develops a new budget.

Commission staff reported in February about the proposal of Governor Davis for 2002-03, and follows in April with a review of Legislative Analyst Elizabeth Hill's recommendations on the Governor's Budget. Included is information about California's overall economic health, and revenue and expenditure assumptions for the upcoming year and beyond. In particular, this report focuses on the Ms. Hill's recommendations about the budgets for postsecondary, elementary and secondary education.

The Legislative Analyst forecasts continued weakness in the California economy that will increase the estimated deficit to \$17.5 billion, some \$5 billion more than the proposed Governor's Budget for 2002-03. (The analyst also forecasts sizable State Budget deficits in out years as well.)

For education in the coming fiscal year, Ms. Hill recommends cutting \$26 million in higher education funding and \$130 million for K-12. To offset such cuts, she recommends better utilization of federal and other funds. Also recommended are major changes in administration student outreach, teacher professional development, and student financial aid programs.

Presenter: Kevin G. Woolfork.



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EACH FEBRUARY, the Office of the Legislative Analyst's Office reviews the proposed Governor's Budget issued the month before. The Legislative Analyst's book is comprehensive and evaluates funding issues specific to individual government program categories (such as K-12 Education and Higher Education) as well as issues that cut across program areas. These recommendations are presented to the Joint Legislative Budget Committee and, during the coming months, will help guide policy and funding discussions throughout the legislative hearings process on the Budget Bill.

As with the proposed Governor's Budget for 2002-03, the California Postsecondary Education Commission staff has reviewed Legislative Analyst Elizabeth Hill's recommendations on the revenues and expenditures put forth in the Governor's Budget and on California's economy as a whole.

The report also reviews the Legislative Analyst's recommendations on postsecondary and elementary, and secondary education. Among Ms. Hill's most significant recommendations for education are:

- ◆ Plan for a potential expansion in the Proposition 98 minimum funding guarantee of \$825 million in State General Funds.
- ◆ Eliminate the Governor's K-12 Distinguished Math and Science Scholars and Staff Performance Award programs for a savings of \$64 million.
- ◆ Reform K-12 categorical program funding by consolidating dozens of categorical programs into five categorical block grants and redirecting \$4.2 billion into these new block grants.
- ◆ Redirect \$294 million from California State University and University of California institutional aid programs to expand the number of Cal Grant program "Competitive Grant" awards.
- ◆ Consolidate and streamline K-12 student outreach programs and staff professional development programs and increase local school district's flexibility to choose with providers for these services.
- ◆ End or substantially reform the California Community Colleges' \$300 million Partnership for Excellence program (PFE).

The Legislative Analyst summarizes the proposed Governor's Budget for 2002-03 as allocating \$98 billion in State and selected Special funds, down \$402 million from the current (2001-02) fiscal year. State General Fund spending in the budget is estimated to be almost \$79 billion, with special funds accounting for the remaining \$19 billion.

Education is expected to account for 52.4% of the total General Fund spending in 2002-03. K-12 Proposition 98 spending will represent 36.3% of the total with higher education and other education programs accounting for 15.1% of this spending. General Fund spending in Health and Human Services, Corrections, and all other State programs is projected to account for 47.6% of the total (see Display 1). A summary of the entire higher education budget, including non-State sources, is presented in Display 2.

The Legislative Analyst's review of the proposed Governor's Budget for 2002-03 includes information on California's economy and on likely revenue and expenditure trends, based upon her office's determinations of the State's fiscal situation. The proposed Governor's Budget estimates a \$12.5 billion budget deficit by the end of the 2002-03 fiscal year (June 30, 2003) and seeks to address that deficit. The projected shortfall consists of a current-year deficit of \$3 billion and a budget-year deficit of more than \$9 billion. This was based upon information available to the Department of Finance through November of 2001.

Display 1 General Fund Spending by Major Program Area <i>(Dollars in Millions)</i>					
	Actual 2000-01	Estimated 2001-02	Projected 2002-03	1-year % Change	2002-03 Proportion
K-12—Proposition 98	\$27,229	\$28,270	\$28,582	1.1%	36.3%
Community colleges—Proposition 98	2,680	2,693	2,682	-0.4%	3.4%
UC and CSU	5,644	6,166	6,104	-1.0%	7.7%
Non-98, CPEC, CSAC, Hastings, other	3,343	4,202	3,933	-6.4%	5.0%
Totals, Education Programs	\$38,896	\$41,331	\$41,301	-0.1%	52.4%
Medi-Cal	\$9,168	\$9,705	\$10,072	3.8%	12.8%
CalWORKs	1,966	2,015	2,151	6.7%	2.7%
SSI/SSP	2,555	2,821	3,049	8.1%	3.9%
Other Health / Social Services Programs	6,121	7,181	7,169	-0.2%	9.1%
Totals, HHS Programs	\$19,810	\$21,722	\$22,441	3.3%	28.5%
Youth and Adult Corrections	\$5,298	\$5,372	\$5,274	-1.8%	6.7%
Govt., Resources, Transportation, Other	\$14,050	\$9,956	\$9,790	-1.7%	12.4%
General Fund Totals	\$78,053	\$78,380	\$78,806	0.5%	--

Adapted from Legislative Analyst's Office' *2002-03 Budget Analysis*, "Perspectives on State Expenditures," Page 67, Figure 2.

Display 2 Higher Education Budget Summary^a (Dollars in Millions)

	Revised Estimated	Proposed	Change	
	2001-02	2002-03	Amount	Percent
<u>University of California</u>				
General Fund	\$3,326.7	\$3,367.1	\$40.3	1.2%
Student fee revenue	942.2	994.6	52.4	5.6
Federal and other funds	11,354.4	11,676.6	322.2	2.8
Totals	\$15,623.4	\$16,038.3	\$414.9	2.7%
<u>California State University</u>				
General Fund	\$2,707.5	\$2,735.6	\$28.2	1.0%
Student fee revenue	655.6	676.4	20.8	3.2
Federal and other funds	1,880.6	1,864.9	-15.7	-0.8
Totals	\$5,243.7	\$5,276.9	\$33.2	0.6%
<u>California Community Colleges</u>				
General Fund	\$2,819.5	\$2,739.4	-\$80.1	-2.8%
Local property tax revenue	1,855.3	2,001.9	146.6	7.9
Student fee revenue	162.4	167.3	4.9	3.0
Federal and other funds	1,198.8	1,229.0	30.2	2.5
Totals	\$6,035.9	\$6,137.6	\$101.6	1.7%
<u>Student Aid Commission</u>				
General Fund	\$571.4	\$733.7	\$162.3	28.4%
Federal and other funds	576.0	575.7	-0.3	-0.1
Totals	\$1,147.4	\$1,309.4	\$162.0	14.1%
<u>Other^b</u>				
General Fund	\$18.9	\$18.7	-\$0.2	-0.9%
Federal and other funds	32.9	50.0	17.1	52.1
Totals	\$51.8	\$68.7	\$17.0	32.8%
Grand Totals	\$28,102.2	\$28,830.9	\$728.7	2.6%
General Fund	\$9,444.0	\$9,594.5	\$150.5	1.6%
Property tax revenue	1,855.3	2,001.9	146.6	7.9
Student fee revenue	1,774.0	1,851.7	77.7	4.4
Federal and other funds	3,674.5	3,706.2	31.7	0.9
^a General Fund amounts exclude capital outlay and payments on general obligation bonds.				
^b Includes Hastings College of the Law and the California Postsecondary Education Commission.				
Adapted from Legislative Analyst's Office' 2002-03 Budget Analysis , "Higher Education,"				
Page E-172, Figure 1.				

However, based on more recent fiscal information, the Legislative Analyst projects that the 2002-03 year-end deficit will be \$5 billion higher than the assumptions in the proposed Governor's Budget. Ms. Hill states that approximately 75 percent of this additional \$5 billion deficit will be due to lower-than-anticipated State revenue collections and the other 25 percent the result of higher-than-expected State expenditures.

While the Legislative Analyst agrees with the Department of Finance's expectation of a recovery for California's economy starting sometime in the spring of 2002, she believes that, even with this recovery, State revenues will be much lower than those the proposed in the Governor's Budget. Ms. Hill bases this position on continued weakness in capital gains and stock options in 2001 – major sources of unanticipated State revenues during the recovery – and lower-than-expected cash receipts from tax collections.

The Legislative Analyst projects that State revenues will be \$2.8 billion lower than the Governor Davis' estimates for the current year and another \$1.1 billion lower than the governor's estimates in the budget year. Ms. Hill also estimates that required State expenditures will be \$1.1 billion higher in the budget year than the governor proposes. She states that the Proposition 98 minimum funding guarantee will be \$825 million higher than is budgeted for in 2002-03, and that other required expenditures will total an additional \$275 million.

Significantly, Analyst Hill expresses the concern that State expenditures will continue to exceed available revenues in future years. In her November 2001 fiscal forecast, Ms. Hill had written that California faces ongoing operating budget deficits due to the structural imbalance of State revenue generation and expenditure commitment. She notes that the proposed Governor's Budget relies on many short-term and one-time solutions to get through the current crisis that fail to address those structural problems. Given this, and her projections of future expenditures, the Legislative Analyst estimate that the State will face budget deficits of around \$7 billion in both the 2003-04 and 2004-05 fiscal years.

To respond to the estimated \$18 billion budget deficit projected for 2002-03, the Legislative Analyst lays out more than 100 options to the Legislature. The report next summarizes some of those major options, and potential savings as presented by the Legislative Analyst within specific program areas.

Education

Reduce General Fund spending in CalWORKs in the K-12 of Education budget by increasing counting Federally mandated "maintenance of effort" spending on child care as Proposition 98 expenditures: **Estimated \$770 million savings in budget year.**

Consolidate related K-12 programs into Block Grants to local school districts and reduce overall expenditure levels: **Estimated tens of millions of dollars in annual savings.**

Suspend funding in the current and budget years for the Governor's "Performance Awards Program" for schools if they meet their Academic Performance Index (API) growth targets: **Estimated \$314 million savings in current and budget year.**

Suspend, on a one-time basis, the Governor's Merit Scholarship Program which provides \$1,000 scholarship savings accounts to ninth through eleventh grade students based on their Stanford - 9 standardized test scores: **Estimated \$112 million in budget year savings.**

Reduce funding for the California Community Colleges Economic Development program by reducing the regional business grants and assistance portions of this program: **Estimated \$10 million in budget year savings.**

Eliminate the California State University Bilingual Teacher Recruitment Program, noting that the Department of Education administers a similar program and that recent legislative initiatives have substantially expanded the State's teacher-recruitment efforts: **Estimated \$2 million in budget year savings.**

Reduce California State University outreach programs' funding by 10%, and consolidate and coordinate the State University's outreach initiatives with other similar programs: **Estimated \$2 million in budget year savings.**

Increase resident student fees at Hastings College of the Law by 15% and reduce the need for General Fund support: **Estimated \$1.2 million in budget year savings.**

Increase Nonresident Fees at the University of California to at least the average charged to nonresidents at comparable public universities, an average increase of approximately \$1,100 for undergraduates and \$483 for graduate students: **Estimated \$6 million in budget year savings.**

Increase Professional-School Fees at the University of California by 15%, an increase of approximately \$700 – \$1,300 per student, per year in these fees: **Estimated \$4.8 million in budget year savings.**

Reduce the University of California's \$335 million 2002-03 General Fund Research Budget by 5%: **Estimated, up to \$16.8 million in budget year savings.**

Reduce University of California's outreach programs' budget by an additional 5% in addition to the 5% cut included in the Governor's 2002-03 budget: **Estimated, up to \$4.2 million in budget year savings.**

Some of the Legislative Analyst's recommendations on the Education budget are further discussed in the next section.

Health and Human Services (HHS)

Reduce services, defer payments, suspend allowances and expansions in various HHS programs: Medi-Cal, Dental Services for Pregnant Women, CalWORKs, Health and Social Services, SSI/SSP grants for couples: **Estimate of up to \$555 million in current and budget year savings.**

Proposals to improve efficiencies (mostly through funding cuts), and to shift funding responsibilities in various HHS programs to program clients, local governments and the federal government: adjust fees paid by parents of who receive 24-hour care in a State or community facility, establish a share of costs or maximum allowable level of services for respite services for the families of Regional Center clients, exclude over-the-counter cough and cold drugs from coverage in Medicaid drug coverage, include elderly and persons with disabilities in managed care in counties where plans already exist, reduce fees paid by the State for pharmacy dispensing fees, limit the growth of Foster Family Agency placements, and other adjustments: **Estimate of up to \$564 million in current and budget year savings.**

Corrections

Proposals to reduce youth and adult corrections expenditures include: Reduce, on a one-time basis, the amount allocated to counties and local law enforcement agencies for the COPS program and Juvenile Justice grant programs, exempt qualifying offenders from State prison and parole supervision, early discharge from parole and prison of qualifying offenders, release qualifying offenders age 60 years and older to home detention with electronic monitoring, remove State prison as a punishment option for certain nonviolent offenses, deport undocumented parolees and transfer caseload to U.S. Immigration and Naturalization Service, transfer costs of regional forensic laboratories to local law enforcement agencies which use services other policy changes: **Up to \$550 million in current and budget year savings.**

Resources and Environmental Protection

Proposals to reduce Resources and Environmental Protection expenditures include: defer the awarding of tax credits for the Natural Heritage Preservation Tax Credit program, Defer expenditures on Merced Grasslands Project, reduce funding for various CALFED Bay-Delta program elements, defer funding for contracts for Stormwater Pollution Control program, reinstate recently reduced fees for State Parks, defer completion of the California All Incident Reporting System information technology project, defer purchase/lease incentives for the Zero-Emission Vehicle program: **Up to \$215 million in current and budget year savings.**

Transportation

Proposals to reduce Transportation expenditures include: transfer interest income accrued in the State Highway Account to the General Fund, transfer revenues from rental property income in State Highway Account to the General Fund, transfer a portion of the cash balance in the Traffic Congestion Relief Fund beyond the amount proposed in the Governor's Budget to the General Fund: **Estimated, up to \$426 million in current and budget year savings.**

General Government

Proposals to reduce general government expenditures and to change State tax policy to increase revenues include: increase reimbursements to offset administrative costs for local taxes, establish a program to reduce all State employees' monthly pay by 5% in exchange for one additional day off per month, eliminate or reduce State "pick-up" of two-thirds of 2002 and 2003 health insurance premium increases, temporarily suspend or eliminate a paid State holiday for employees, eliminate reimbursements to cities and special districts for jail booking fees they paid to counties in 1997-98, lower the scheduled tax relief benefits to senior citizens in the Senior Citizens' Property Tax Assistance program on a temporary basis, limit the amount of home mortgage debt eligible for the deduction from State income taxes, eliminate the Teacher Tax credit, other adjustments: **Estimated, up to \$2.09 billion in current and budget year savings.**

In summary, Ms. Hill forecasts that continued weakness in the State's economy will necessitate \$5 billion in additional current and budget-year adjustments beyond those proposed by in the proposed Governor's Budget for 2002-03. The Legislative Analyst has developed more than 100 expenditure reduction and revenue-enhancing options for the Legislature to consider in dealing with this additional problem. These options are separate from recommendation made in her regular review of the budget but, since many program areas are interconnected in some way, the Legislature will likely consider each set of Analyst Hill's recommendation within the totality of crafting a 2002-03 fiscal year budget

Higher Education Budget

The Governor's Budget proposes a \$150.5 million increase in General Fund expenditures for higher education in 2002-03. This represents an increase of 1.6% above estimated expenditures in the current year. The 2002-03 budget proposal would fund 1.5% base increases for the University of California and the California State University, and a 2.15% inflation adjustment for the California Community Colleges. It also funds enrollment growth of 4% for the University, 4% for the State University, and 3% for the community colleges. For the eighth consecutive year, the budget proposes no increase to resident student fees. However, in a depar-

ture from recent practice, the budget does not propose General Fund support in lieu of raising resident student fees for the public universities.

As Display 2 shows, the 2002-03 budget proposal provides a total of \$28.8 billion from all sources for higher education. This amount is \$729 million, or 2.6%, more than the governor's revised current-year budget proposal. The total includes funding for the three public higher education, Hastings College of the Law, the California Student Aid Commission, and the California Postsecondary Education Commission. Funded activities include instruction, research, and related activities, as well as other activities, such as providing medical care at Univeristy hospitals (\$2.8 billion) and managing three major U.S. Department of Energy laboratories (\$3.3 billion). The governor's current-year estimates include a variety of technical adjustments and assume adoption of the his November Revision proposal, which would reduce current-year expenditures in higher education by \$61 million.

Display 3 (on the next page) presents the Analyst Hill's summary of significant changes proposed in higher education General Fund program expenditures. The display also shows the three public systems' requested General Fund levels for 2002-03 in contrast with the actual change (decrease or increase) in those funds proposed in the Governor's Budget. The community colleges reduction in General Funds is due in large part to anticipated increases in local property tax revenues, which are a part of the community colleges funding formula.

**Legislative
Analyst's
recommendations
for education**

In this section, Commission staff discusses selected recommendations by the Legislative Analyst for changes in the proposed 2002-03 budgets of K-12 Education, the California Community Colleges, the State University, the University of California, and the Student Aid Commission.

In total, Ms. Hill recommends the deletion of more than \$130 million in proposed K-12 expenditures and approximately \$26 million in higher education General Fund expenditures from the 2002-03 budget. Some of these reductions are offset by proposal to better utilize federal funds or other funds available for these programs. In addition, she suggests major reorganizations to the administration of student outreach, teacher professional development, and student financial aid programs. Some of her major recommendations are described below. A complete listing of all of the Legislative Analyst's education recommendations is included in an appendix to this report.

K-12 Education

Proposition 98 – The Legislative Analyst notes that the proposed 2002-03 Governor's Budget may be underfunding the Proposition 98 minimum funding guarantee by \$825 million. The major difference between the two estimates are assumptions on levels of local property tax revenues (\$110 million) and estimates of the decline in California per capita

Display 3 Proposed Major General Fund Changes for Higher Education			
University of California		Amount Requested: \$3.4 billion	
		Budgeted Increase: \$40.3 million	(+1.2%)
Base Budget Adjustments: Increase of \$47.6 million (1.5 percent) for salary and other cost increases. Also reflects a \$77.5 million reduction due to one-time costs in current year.			
Enrollment Growth: \$63.8 million (4 percent: 7,100 full-time-equivalent [FTE] students).			
Proposed Current-Year Reductions: \$36 million for natural gas costs, Professional Development Institutes, and UC teaching hospitals.			
Proposed Budget-Year Adjustments: Reduction of \$30 million in financial aid, outreach, teacher training, and K-12 Internet 2. Augmentation of \$36.3 million in staff benefits, summer courses, lease-revenue bond payments, and new initiatives.			
California State University		Amount Requested: \$2.7 billion	
		Budgeted Increase: \$28.2 million	(+1.0%)
Base Budget Adjustments: \$37.7 million (1.5 percent) for salary and other cost increases. Also reflects a \$54.7 million reduction due to one-time costs in current year.			
Enrollment Growth: \$78.1 million (4 percent: 12,030 FTE students).			
Proposed Current-Year Reductions: \$20 million for natural gas costs.			
Proposed Budget-Year Reductions: \$35.1 million in financial aid, K-12 professional development and teacher recruitment, and lease-revenue bond payments.			
California Community Colleges		Amount Requested: \$2.7 billion	
		Budgeted Decrease: \$80.1 million	(-2.8%)
Base Budget Increase: \$88.8 million (2.15 percent).			
Enrollment Growth: \$114.3 million (3 percent: 31,864 FTE students).			
Proposed Current-Year Reductions: \$5 million (Proposition 98 Reversion Account) to reduce Teacher and Reading Partnership program by one-half, and \$24.8 million (Proposition 98 General Fund) in apportionments to reflect increased property tax revenues.			
Proposed Budget-Year Adjustments: Reductions of \$171.4 million in apportionments to reflect higher property tax revenues and \$131.4 million in various categorical programs. Augmentation of \$66 million for instructional equipment and scheduled maintenance.			

Adapted from Legislative Analyst's Office' 2002-03 *Budget Analysis* , "Higher Education," Page E-174, Figure 2.

personal income (\$715 million), which the federal government will publish in the spring. As the Commission has noted in its annual reports on the final State budget, in recent fiscal years, the Legislature and Office of the Governor have regularly over-appropriated the Prop 98 minimum funding level by billions of dollars. Since State General Fund revenues were quite high in these years, this practice was not an issue. However, with the recession, the Analyst Hill urges the Legislature to take actions that will minimize the impact of the potential \$825 million increase in Prop 98 on other State programs and services.

To address this concern, she recommends that the Legislature move some K-12 programs from current non-Prop 98 funding to funding that is counted towards meeting the State's Prop 98 minimum funding guaran-

tee. Ms. Hill also estimates that the actual K-14 statutory cost-of-living adjustment (COLA) for Prop 98 programs for the budget year will be 1.8% and not the 2.15% assumed in the budget. Reducing the COLA to 1.8% would save the State and estimated \$135 million for K-12, and an additional \$15 million for community college funding in the Prop 98 guarantee.

The Legislative Analyst's Office also recommends consolidation of most categorical programs in the K-12 budget into five categorical block grants. Currently, there are more than 70, individual categorical program in K-12 which account for nearly \$12 billion in spending. The Legislative Analyst proposed condensing 51 of these programs into five categorical block grants totaling approximately \$4.2 billion. She states that such a streamlining effort would provide for clearer lines of accountability at the local level and would provide school districts with greater flexibility in meeting State goals. The proposed categories are detailed next.

- ◆ Academic Improvement Block Grant (\$1.5 Billion). This block grant consolidates funding for eight programs. Funding would be provided to school districts to meet a range of school improvement needs focused on student academic achievement.
- ◆ Compensatory Education Block Grant (\$1.6 Billion). This block grant consolidates eight programs for pupils who need additional services to be successful in school. Included in the block grant is funding currently provided through the Economic Impact Aid program and remedial supplemental instruction programs.
- ◆ Alternative Education Block Grant (\$267 Million). This block grant consolidates funding for eight programs currently supporting alternative education settings for students who are at risk of dropping out of school.
- ◆ School Safety Block Grant (\$140 Million). This block grant would consolidate three categorical programs and several state-mandated programs intended to provide for school safety.
- ◆ Teacher Support and Development Block Grant (\$722 Million). This formula-based block grant would consolidate 18 teacher preparation, induction, and staff development programs

(Adapted from Legislative Analyst's Office' 2002-03 Budget Analysis, "Reforming Categorical Program Funding," Figure 3.)

The Legislative Analyst also recommends that the Legislature redirect to other programs \$41.5 million provided in the budget to cover school district's collective bargaining obligations as a constitutionally required State-reimbursable mandate. Citing recent State Supreme Court decisions, she states that collective bargaining no longer should be counted as a State-reimbursable mandate.

The Legislative Analyst also recommends that, if resources are available, the Legislature provide budget-year funding for school district revenue limit equalization (\$42 million) and the “PERS offset” to revenue limits (\$36 million). As part of the current-year reductions, the governor proposed to eliminate current-year appropriations for these two programs, along with \$68 million in K-12 per-pupil block grants and his 2003-03 budget proposes to repeat these cuts. The Legislature chose to maintain the current-year funding for these three programs. Ms. Hill notes that these three programs provide districts with general purpose funding and states that “equalization” and the “PERS offset” are important legislative priority programs.

Intersegmental

The Legislative Analyst recommends adoption in statute of a stable policy for setting and adjusting systemwide student fees at the California Community Colleges, the California State University, and the University of California.

The Analyst’s Office also recommends that the State adopt a set of principles to guide the outreach efforts of the higher education systems that are directed at improving the academic preparation and postsecondary education enrollment of elementary and secondary students. Among these principles are that outreach efforts should be based on the needs of K-12 students, not of service providers, and that K-12 schools should have greater control over which outreach activities they can access. Ms. Hill also recommends that both public university systems report on several issues expansion of year-round operation, per conversions of campuses to year-round operation that occurred during the summer of 2001.

The Legislative Analyst also recommends changes to K-12 outreach programs that focus on preparing students from disadvantaged backgrounds for college which, she states, will improve the outcomes of these programs’ efficiency and effectiveness of the system. She says the Legislature should:

- ◆ Approve the reductions proposed by Governor Davis for K-12 outreach. According to the Analyst’s Office, the majority of these programs do not provide direct services or increase preparedness of students and during a tight budget year should be a lower priority than are those programs that directly serve students.
- ◆ Should direct the University of California to report at budget hearings on the status of its evaluation efforts. The Legislative Analyst notes that the University of California has been provided with approximately \$6 million since 1998-99 to evaluating its outreach efforts.
- ◆ Should consider consolidating existing outreach programs and integrating outreach services into regular school programs. The Legislative Analyst notes that this approach would eliminate overlap in pro-

grams, be easier to administer, and provide local schools with greater flexibility to meet their individual outreach needs.

- ◆ Consider redirecting funding for certain outreach programs to schools and districts. While the Legislative Analyst believes it is appropriate for higher education systems to provide outreach services such as financial aid counseling, college advising, and summer residential programs, her opinion is that other services are better provided by K-12 schools. Analyst Hill states that outreach efforts in the areas of academic preparation, tutoring, and parental involvement should be directly funded at the schools and that funding for these efforts should be removed from the higher education systems' budgets and instead provided directly to local education agencies who could develop interagency agreements with local colleges and universities or others to provide these services.

The Analyst's Office also recommends that the Legislature streamline K-12 teacher existing professional development programs. She recommends that the Legislature consolidate 18 existing teacher training programs and create a new \$722 million formula-based block grant program that would provide more flexibility to local school districts and, hopefully, improve the effectiveness of these programs. In addition, she recommends the creation of a competitively based teacher support and development block grant, consolidating six existing programs, and providing a total of \$20 million to this program. The State Department of Education would be responsible for distributing these funds on a competitive basis to educational entities, with the size of the grant award varying by proposed project.

California Community Colleges

Ms. Hill recommends that the Legislature either end the Partnership For Excellence (PFE) program or modify it, stating that the accountability portion of PFE has not been as substantive as was anticipated. She also recommends that the Legislature approve the governor's proposed reduction of \$122 million to six categorical programs, with the additional recommendation that these programs be consolidated into two block grant programs to give local districts more flexibility.

The California State University

The Legislative Analyst recommends converting the State University Governor's Teaching Fellowships into Assumption Program of Loans for Education (APLE) awards, which are administered by the California Student Aid Commission. She notes that this program conversion would allow more students to receive financial aid, while saving the State more than \$21 million in the budget year. By eliminating this program, she states that the Legislature could reduce administrative costs and future costs related to the fellowship repayment process by several million dollars. Ms. Hill notes that the Legislature could use these funds to authorize

the Student Aid Commission to issue 1,000 additional new warrants (for a total of 7,500 new warrants) each year.

The University of California

The Analyst's Office recommends that the Legislature approve the governor's proposed reduction of \$4 million to the California Subject Matter projects, but do so as part of a wider initiative to streamline professional development programs for K-12 personnel, which is discussed above.

Ms. Hill also recommends the elimination of \$4 million proposed for hiring faculty at UC Merced, stating that the University can recruit and hire needed faculty using available resources. She notes that since 1998-99, the State has appropriated more than \$43 million for support of the planned Merced campus and that Governor Davis proposes an additional \$14 million for 2002-03. Some \$9.9 million of this is provided as "base" funding for start-up costs at the campus and the \$4 million is allocated specifically for hiring faculty. The Legislative Analyst notes that, to date, the university has not spent the \$2 million it received for the current year for this purpose, and believes this funding, and other University resources will be sufficient for these purposes in the budget year.

Higher Education Capital Outlay

The Legislative Analyst notes that the 2002-03 budget proposes a total of \$934 million in higher education capital outlay expenditures. She estimates these construction projects will have a total future cost of almost \$2 billion. Consistent with her recommendations on year-round operations in the higher education systems' support budgets, she recommends that the community colleges, State University, and University of California take year round operations into account in their capital construction planning. Ms. Hill recommends that the systems plan their needs for future construction on the assumption that their facilities will be fully utilized during summer months. She also recommends that the Legislature switch funding sources for approximately \$19 million in University of California research facilities to lease-revenue bonds to free up State resources for other projects.

The Analyst's Office also recommends that the California Community Colleges and the California State University report on the utilization of their facilities, as does the University of California. She recommends that the Legislature adopt Supplemental Report Language requiring these two systems to report every two years on the utilization of classrooms and teaching laboratories on a campus-by-campus basis. Ms. Hill also recommends reductions totaling \$162 million in individual capital projects for the State University, and University of California, mainly due to concerns about costs, summer utilization, and justification based on enrollments.

California Postsecondary Education Commission

The Legislative Analyst recommends that Legislature direct the Commission to stop its payments for Terradata services to the Teale Data Center and that the \$96,000 in the Commission's budget for this purpose be removed. Ms. Hill notes that since 2000 the Commission has not used these services, having moved its data from the Terradata system to the Commission's own computers, however is still required to make payments to Teale for these unused services. She recommends that the Legislature direct the Commission to terminate its payments for Terradata services, and that funding for this purpose be removed from the Commission's budget.

Analyst Hill also recommends that Budget Bill Language, as follows, be added to the Commission's \$150,000 study of student outreach programs to ensure that this study meets legislative policy:

6420-001-0001 Provision 1. Of the amount appropriated in Schedule (2), \$150,000 in one-time funds is included to complete a comprehensive study of state outreach programs. This study shall include the name and County-District-School code of all public elementary, middle, and high schools participating in the following K-12 outreach programs: Advancement via Individual Determination program; Collaborative Academic Preparation Initiative; Precollegiate Academic Development program; California Academic Partnership Program; Educational Opportunity Program; Student Opportunity Access Programs; Early Academic Outreach Program; Mathematics, Engineering, and Science Achievement; Puente; and K-12 School-University Partnerships. For each school, the study shall also include the number of students participating in each program, and estimated program expenditures. Finally, the study shall identify overlap and duplication among these programs. The study shall be submitted to the Legislature and the Governor on or before March 1, 2003.

California Student Aid Commission

The Legislative Analyst recommends that the California Student Aid Commission provide the Legislature with an update on the second year of implementation of the Cal Grant entitlement program and that the Student Aid Commission provide revised projections of out-year award numbers and costs for this program. She also recommends that the competitive Cal Grant program be expanded by redirecting State funds totaling \$294 million from certain financial aid programs at the University of California and the California State University. Ms. Hill believes that this would help create a statewide financial aid system that is more efficient and objective.

Summary In summary, the Legislative Analyst suggests significant additional spending reductions in order to deal with a budget deficit she feels will be \$5 billion higher than is estimated in the proposed Governor's Budget for 2002-03. For both K-12 and higher education, she recommends better coordination of services provided intersegmentally, such as outreach. Analyst Hill also recommends shifting program responsibilities in areas such as student institutional financial aid and K-12 personnel professional development, claiming these actions would provide greater efficiencies for these programs.

The Legislature will debate the Legislative Analyst's proposal and other budget issues in the months ahead as it struggles to pass its first "recession-era" budget in eight years.

Appendix A Summary of Legislative Analyst's Recommendations for Education in the 2002-03 Budget

The following text is reprinted from the Legislative Analyst's "Analysis of the 2002-03 Budget," *Findings And Recommendations for Education* section. It contains abbreviated summaries of all of the Legislative Analyst's recommendation for the Education budget, along with her rationale for each recommendation. Of necessity, this annual Commission report can summarize only a few of the many spending recommendations the Legislative Analyst makes on the proposed Governor's Budget, particularly in the K-12 Education budget. This section summarizing all of the Analyst Hill's education recommendations has been added in order for the reader to review these recommendations in their totality. This is particularly important this year because of the major reorganizations suggested by the Legislative Analyst and her recommendations for dealing with the State's increasing budget deficit.

K-14 Education Priorities—Proposition 98

General Fund Spending Could Increase by \$825 Million for Proposition 98. Our estimates indicate that the Governor's budget could understate General Fund requirements for Proposition 98 by a total of about \$825 million. We discuss ways for the Legislature to act strategically in response to this challenge, in order to minimize impacts on non-Proposition 98 needs yet still meet important K-14 education priorities.

Public Employees' Retirement System

Implication of Public Employees' Retirement System (PERS) Deferral for K-14 Education. Legislature's action regarding budget's proposed deferral of employer contributions to PERS has important implications for Legislature's efforts to craft a K-14 education budget.

Proposition 98 Mandates

Include Proposition 98 Mandates in Categorical Reform. Recommend, to the extent Legislature enacts categorical funding reform, it redirect related mandate funding to our recommended block grants to provide districts with increased funding flexibility and incentives to minimize costs.

Savings in Test Claims and Reimbursement Claims Mandate. Reduce Item 6110-295-0001, Subdivision 10, by \$6 Million. Recommend, to the extent Legislature enacts our proposed categorical reform block grants, it reduce this mandate appropriation because districts no longer would

incur administrative costs for mandate funding redirected to these block grants.

Delete Reimbursement of District Collective Bargaining Costs. Reduce Item 6110-295-0001 by \$41.5 Million. Recommend Legislature initiate a reconsideration of this mandate by redirecting funds to other legislative priorities and specifying that this law no longer meets the criteria of a state-reimbursable mandate.

Delete Funding for Expired Mandate. Reduce Item 6110-295-0001, Subdivision 39, by \$696,000. Recommend Legislature delete funding for the School Testing—Physical Fitness mandate because school districts and county offices of education no longer are required to meet the provisions of this mandate.

Make American Government Course Documents Mandate Optional. Delete Item 6110-295-0001, Subdivision 40, for \$207,000. Recommend Legislature enact legislation making this mandate optional because the state already holds school districts accountable for meeting the same requirements through academic content standards and the assessment and accountability system.

Teacher Support and Development

Create Formula-Based Teacher Support and Development Block Grant. Recommend Legislature create new formula-based block grant totaling \$722 million Proposition 98 that school districts could use for a coherent, comprehensive series of teacher support and professional development activities.

Create Competitively Based Teacher Support and Development Block Grant. Recommend Legislature create a new competitively based block grant totaling \$20 million Proposition 98 General Fund to fund educational agencies that develop innovative training programs, conduct research on their effectiveness, and broadly disseminate findings.

Overbudgeted Funds in the Advanced Placement Challenge Grant Program. Reduce Item 6110-193-0001 by \$8.3 Million Proposition 98 General Fund. Increase New Competitively Based Block Grant by \$8.3 Million Proposition 98 General Fund. Recommend Legislature shift \$8.3 million Proposition 98 to a new competitively based block grant.

Eliminate Support for Secondary Schools Reading Program. Reduce Item 6110-142-0001 by \$8 Million Proposition 98. Recommend Legislature eliminate program because it is duplicative of other reading professional development programs and is not authorized by statute as a state program.

Governor's Distinguished Math and Science Scholars Program

Eliminate Governor's Distinguished Math and Science Scholars Program. Reduce Item 0954-101-0001 by \$14 Million. Recommend Legislature eliminate the Governor's Distinguished Math and Science Scholars Program because it does not create additional incentive for California's highest achieving students. Further recommend deletion of \$14 million of General Fund (non-Proposition 98) provided for the program.

Discretionary Funds

Continue Budget-Year Funding for Revenue Limit Equalization and a Reduced Public Employees' Retirement System (PERS) Offset. Add New Item 6110-223-0001 of \$78 Million. Recommend that, to the extent funds are available, the Legislature provide budget-year funding for revenue limit equalization (\$42 million) and a reduced PERS offset to revenue limits (\$36 million) because (1) additional general purpose funds enhance ability of schools to improve student outcomes in ways that suit varying local needs and (2) these programs meet important legislative priorities.

Reforming Categorical Program Funding

Reforming Categorical Program Funding. Recommend the Legislature (1) consolidate various categorical programs into five categorical block grants and (2) create additional block grant features

for small school districts and state mandates in order to increase local flexibility and efficiency.

Create an Academic Improvement Block Grant. Recommend the Legislature consolidate eight categorical programs focused on academic improvement, in order to increase local flexibility and effectiveness in providing materials and services to all pupils.

Create a Compensatory Education Block Grant. Recommend consolidation of eight categorical programs for pupils who need additional services to be successful in school, in order to increase local flexibility and effectiveness in serving these pupils.

Create an Alternative Education Block Grant. Recommend consolidation of eight existing programs for disruptive and other at-risk students, in order to increase local flexibility and effectiveness in serving these pupils.

Create a School Safety Block Grant. Recommend the Legislature consolidate three categorical programs and ten state-mandated programs involving school safety in order to increase flexibility and effectiveness for school districts to ensure safe and orderly campus environments.

Provide Additional Flexibility to Small Districts. Recommend that the Legislature adopt budget bill language allowing small school districts to move funds among our recommended block grants. Further recommend that the Legislature incorporate this language into statute so that districts may adequately plan for future fiscal years.

Redefine Role of the State Department of Education (SDE). Recommend the Legislature redefine the mission of SDE to focus on assisting schools and school districts by (1) improving the accountability system, (2) providing technical assistance and program oversight, and (3) improving research and evaluation.

Instructional, Library, and Science Materials

Place Instructional, Library, and Science Materials in a Larger Block Grant. Recommend Legislature (1) redirect \$625 million requested for Instructional Materials Realignment Initiative instead to our recommended Academic Improvement Block Grant and (2) deny requested advance appropriations totaling \$1.95 billion for fiscal years 2003-04 through 2006-07, in order to increase local flexibility and preserve the Legislature's fiscal flexibility in the future.

Assessments

Federal Assessment Funds for STAR Growth and COLA. Add New Item 6110-113-0890 for \$2.1

Million and Reduce Item 6110-113-0001 by \$2.1 Million. Recommend Legislature (1) use \$2.1 million of federal assessment funds to pay for growth and cost-of-living adjustment (COLA) for the Standardized Testing and Reporting (STAR) program and (2) save a corresponding amount of General Fund monies for other education priorities.

Waiver for Federal Assessment Funding. Recommend Legislature direct the State Department of Education to seek a federal waiver to reallocate \$26.5 million federal funds provided for grade 3 through 8 assessments instead to support federally required assistance and intervention in Title I schools (programs for disadvantaged pupils).

State Department of Education Assessment Workload. Augment Item 6110-001-0890 by \$300,000. Recommend Legislature add \$300,000 of new federal assessment funds and three personnel-years to the department for increased workload in administering the STAR assessment program.

Use Federal Funds for English Language Development Test. Add New Item 6110-113-0890 for \$2.1 Million and Reduce Item 6110-113-0001 by \$2.1 Million. Recommend Legislature (1) use \$2.1 million of federal English Acquisition, Language Enhancement, and Academic Achievement Act funds to pay for additional district apportionments for the English Language Development Test; and (2) save a corresponding amount of General Funds monies for other education priorities.

Accountability and Low-Performing Schools

Eliminate the Certificated Staff Performance Award Program. Reduce Item 6110-133-0001 by \$50 million. Recommend Legislature eliminate the Certificated Staff Performance Award Program because program (1) often rewards short-term fluctuations in test scores not long-term academic improvement, (2) small number of awards is not likely to create a strong incentive for teachers and principals, and (3) program does not provide additional services to students.

Aligning State and Federal Accountability Systems. Recommend Legislature align state law more closely to the federal Title I accountability system by adjusting the Academic Performance Index calculation to measure growth in number of students meeting proficiency standards so that schools are held to one set of accountability standards instead of two.

Aligning Existing Intervention Programs. Recommend Legislature align planning requirements for existing intervention programs to

focus attention of schools and districts on core components of action plans.

Funding Available for More School Intervention and Sanctioning Activities. Legislature would have up to \$55.6 million of federal Title I, Part A funding for school improvement purposes, including school intervention and sanction activities, if state waiver request is successful.

Schools at Risk of Sanctions under Federal Title I. Recommend Legislature enact legislation to include schools subject to federal sanctions in the sanctioning process under existing state law, in order to align the state and federal accountability systems.

Create School Assistance and Intervention Teams. Recommend Legislature use excess Immediate Intervention for underperforming Schools Program funds and Title I School Improvement funds to help school districts pay for school assistance and intervention teams.

Clarifying Public Schools Accountability Act and Federal Sanction Process. Recommend Legislature clarify in statute how school finance, facility funding, and other issues should operate before the Superintendent of Public Instruction takes over some low-performing schools in fall 2002.

Excess Comprehensive School Reform Demonstration (CSRD) Funds. Recommend Legislature enact legislation to (1) allow State Board of Education-approved CSRD applications to meet the requirements of Immediate Intervention for Underperforming Schools (II/USP) Program action plans, and (2) create a priority in the II/USP application process for schools that commit to apply for CSRD.

Fund Public Schools Accountability Act (PSAA) Evaluation and Extend Timeline. Augment 6110-001-0890 by \$500,000. Recommend Legislature (1) provide \$500,000 from federal Comprehensive School Reform Demonstration funds to the State Department of Education to continue the contract for an evaluation of the PSAA, and (2) amend the statutory deadline for submitting the evaluation to June 30, 2003.

California School Information Services

Establish Timeline for California School Information Services (CSIS) Completion. Recommend Legislature annually adopt budget bill language stating the intended completion date for CSIS.

Fiscal Crisis and Management Assistance Team Provide CSIS Needs Assessment. Recommend Legislature adopt budget bill language to allow CSIS to use a portion of their annual appropriation to conduct CSIS compatibility and needs assessment for local education agencies.

Clarify CSIS Mission. Recommend Legislature amend statute to clarify the CSIS mission with regard to its role in (1) supporting the Academic Performance Index calculation, (2) providing the Legislative Analyst's Office Legislature and state agencies with access to individual student information, and (3) supporting state and federal data collections.

State Department of Education (SDE)—Electronic Submission of State and Federal Reporting Requirements. Withhold recommendation on the appropriation level provided to SDE to transition state and federal reporting requirement to electronic submission through CSIS, pending receipt and review of the Department of Finance report evaluating the data management practices of SDE.

Special Education

Use Part of Federal Special Education Funds to "Free Up" Proposition 98 General Funds. Augment Item 6110-161-0890 by \$4 Million. Reduce Item 6110-161-0001 by \$4 Million. Recommend that the Legislature use \$4 million of the additional \$19.3 million available as an offset within the definition of federal non-supplanting language to free up Proposition 98 General Fund monies for other legislative priorities.

Fund Study of Special Disabilities Adjustment. Augment 6110-161-0890 by \$300,000. Recommend that the Legislature allocate \$300,000 of the additional \$19.3 million of federal special education funds California will receive for 2002-03 to conduct a study to calculate new factors for the special disabilities adjustment.

Continue Special Education Equalization and Equal Per-Average Daily Attendance (ADA) Allocation. Augment 6110-161-0890 by \$15 Million. Recommend that the Legislature allocate about \$15 million of the additional federal special education funds that California will receive for 2002-03 to continue the precedent set in the *2001-02 Budget Act* and allocate half of these funds to further equalize special education funding levels and the other half to be distributed equally per ADA.

Charter Schools

Charter School Access to Revenue Limit. Recommend Legislature enact urgency legislation to allow charter schools to continue to receive revenue limit funding.

Expiration of Charter School Funding Model Grandfather Clause. Recommend Legislature provide a two-year extension for the "grandfather clause" to allow charter schools to opt out of the charter school direct funding model in order to avoid

an unbudgeted onetime cost of \$15 million in the General Fund (Proposition 98).

Charter School Categorical Block Grant (CSCBG) Calculation. Recommend Legislature enact legislation to amend the funding calculation for the CSCBG to reflect the appropriation level made in the annual budget bill and accompanying legislation, instead of the Governor's May Revision.

Charter County Community Day School

Charter Community Day School Funding Mechanism. Conclude that the funding mechanism created in Chapter 19, Statutes of 2000 (AB 696, Washington), is a reasonable funding mechanism for a charter school serving expelled/probation-referred pupils.

Charter Community Day School Struggles to Meet Outcome Goals. Find that Soledad Enrichment Action (SEA) Charter School did not meet their statutorily required outcome goals, but SEA did develop, and has begun to implement the statutorily required school improvement plan.

Child Care and Development

The Governor's Child Care Reform Proposal. Withhold recommendation on the Governor's child care reform proposals pending further review of programmatic and fiscal impacts.

Other Issues

Withhold Recommendation on Funding Rate Reduction Until Administration Provides Cost Data for Independent Study. Our analysis indicates that the budget overstates expected savings from its proposed independent study funding rate reduction by at least \$13 million. Withhold recommendation on the reduction of the funding rate until the administration provides, and the Legislature reviews, better data justifying the remaining \$29 million of expected savings.

Reading Awards Programs. Reduce Item 6110-147-0001 by \$4.75 Million. Recommend deletion of funds for the Governor's Reading Awards Program and the California Reads program because the effectiveness of the programs is unknown and nonstate funds are available for these types of awards if local districts consider them priorities.

Eliminate Budget-Year Appropriation for High-Tech Highs. Delete Item 6110-485, Schedule 1, Saving \$4 Million. Recommend Legislature reject second-year appropriation for high-tech highs because these schools will receive funding in the current year to enable them to leverage private funding sources for 2002-03.

Commission on Teacher Credentialing

Eliminate Fee Waiver Program for First-Time Credential Applicants. Delete Item 6360-002-0001 and \$1,575,000. Recommend Legislature eliminate teacher credential fee buyout program because (1) there is no evidence it attracts additional, better qualified teachers and (2) the state has many other programs likely to be more effective at recruiting and retaining qualified teachers.

Intersegmental

Student Fee Policy Needed. Recommend the Legislature enact in statute a fee policy for the University of California (UC) and California State University (CSU) that provides for an appropriate sharing of costs between students and the state.

Expanding Summer Operations at the UC and the CSU. Reduce Item 6440-001-0001 by \$1 Million and Item 6610-001-0001 by \$180,000. Recommend Legislature provide funding to expand summer operations at UC Davis and CSU Chico, but link funding to specified enrollment targets and require universities to report on whether they meet these targets. Recommend the state also implement a consistent enrollment-growth funding policy—using budgeted enrollment-growth funding to support all additional students in all academic terms at all campuses.

Expand Competitive Cal Grant Programs by Pooling Resources From Institutional Aid Programs. Augment Item 7980-101-0001 by \$294 Million and Reduce Items 6440-001-0001 by \$172 Million and 6610-001-0001 by \$122 Million. Recommend the Legislature expand the competitive Cal Grant programs by pooling state funds currently provided for institutional financial aid programs, thereby promoting a statewide financial aid policy that is consistent and objective.

The CSU and the UC Should Report on New Policies for Joint Doctor of Education (Ed.D.) Programs. Recommend the Legislature ask CSU and UC to report during budget hearings on their policies for creating new joint Ed.D. programs.

California Postsecondary Education Commission

Data Services Funding. Reduce 6420-001-0001 by \$96,000. Reduce funding for services California Postsecondary Education Commission (CPEC) no longer receives.

Budget Bill Language Regarding CPEC Outreach Inventory. Recommend the Legislature approve the Governor's proposed \$150,000 for CPEC to complete a study of state-funded outreach programs, but adopt budget bill language specifying the scope and due date of the study.

University of California

Funding for Hiring Faculty at Unopened Campus Unnecessary. Reduce Item 6440-004-0001 by \$4 Million. We recommend deletion of \$4 million (General Fund) requested for hiring faculty at the planned Merced campus of the University of California (UC) because UC can recruit and hire new faculty using existing resources.

Governor's Proposed Reductions for UC's K-12 Outreach. Related to Item 6440-001-0001. Recommend approving proposed K-12 outreach reductions to UC because programs generally do not provide direct services or increase preparedness of students.

Status of UC's Outreach Evaluation Efforts. Related to Item 6440-001-0001. Recommend the Legislature direct UC to report on the status of its ongoing outreach evaluation and the potential for providing information on effectiveness and cost-effectiveness studies before 2004.

Potential for Consolidation and Integration of Existing K-12 Outreach Programs. Related to Items 6440-001-0001 and 6610-001-0001. Recommend Legislature consider the consolidation and integration of existing outreach programs to decrease inefficiencies and administrative overlap.

Target Funding Depending on Type of Outreach. Recommend Legislature consider redirecting funding for some types of outreach—such as academic preparation and tutoring—directly to K-12 schools and districts.

California State University

Convert Governor's Teaching Fellowships Into Assumption Program of Loans for Education (APLE) Warrants. Reduce Item 6610-001-0001 by \$21 Million. Recommend the Legislature convert the Governor's Teaching Fellowships into Assumption Program of Loans for Education warrants, thereby saving \$21 million in the budget year as well as reducing future enforcement and administrative costs.

Eliminate the Commission on Teacher Credentialing's (CTC) Administrative Position for Tracking Fellowship Recipients. Reduce Item 6360-001-0002 by \$66,000 and One Personnel-Year. Recommend the Legislature eliminate the administrative position CTC uses to track recipients of Governor's Teaching Fellowships.

California Community Colleges

Partnership for Excellence (PFE) Has Shown Mediocre Performance, Little Accountability. Recommend the Legislature either (1) end the PFE

or (2) take steps to address significant shortcomings in anticipation of the January 1, 2005 sunset date.

Categorical Consolidations Should Accompany Proposed Cuts. Recommend approval of \$121.7 in proposed reductions to categorical programs. Also recommend that these reductions be accompanied by a consolidation of 12 categorical programs into two programs in order to allow greater flexibility in directing available resources to where they are the most needed.

Possible Increase in Public Employees' Retirement System (PERS) Contribution Rate Would Add to District Expenses. If the Governor's proposal to defer PERS contributions is rejected (as we recommend), community college districts will face \$12 million in unreimbursed costs.

Statutory Cost-of-Living Adjustment (COLA) May Be Overfunded. The budget's provision of a 2.15 percent COLA for California Community Colleges (CCC) may exceed the statutory COLA by \$15 million.

Governor Proposes to Move Adult and Vocational Education Programs from K-12 to CCC. While we believe the objectives behind the consolidation proposal have merit, the administration has not been able to provide adequate information to evaluate whether the consolidation it envisions is appropriate. We recommend the Legislature have CCC, the State Department of Education, and other affected agencies report at budget hearings on the implications of this proposal.

Student Aid Commission

Provide Update on Second-Year Implementation of Entitlement Program and Future Cost. Recommend the Legislature ask the commission to provide an update on: (1) the second-year implementation of the entitlement program and (2) the revised out-year cost projections for the entitlement program.